REPORTS AND CONSOLIDATED FINANCIAL STATEMENTS

MERRILL LYNCH INTERNATIONAL BANK LIMITED
(FORMERLY MERRILL LYNCH CAPITAL MARKETS BANK LIMITED)

FOR THE YEAR ENDED 29 DECEMBER 2006

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DIRECTORS AND OTHER INFORMATION

DIRECTORS	Robert Wigley - Chairman Michael G Ryan - Managing Director Nasser Azam Allen G Braithwaite III Andrew Briski Gavin Caldwell Eva Castillo Kevin Cox Michael J D’Souza David Gu Chris Hayward Eng Huat Kong Robert G Murphy Paddy Teahon
REGISTERED OFFICE	Treasury Building Lower Grand Canal Street Dublin 2
SECRETARY	Merrill Lynch Corporate Services Limited 33 King William Street London EC4R 9AS United Kingdom
AUDITORS	Deloitte & Touche Chartered Accountants Deloitte & Touche House Earlsfort Terrace Dublin 2

On 30 September 2006, the worldwide businesses of Merrill Lynch International Bank Limited ("Old MLIB"), a United Kingdom based bank, was acquired by Merrill Lynch Capital Markets Bank Limited ("MLCMB"), an Irish incorporated bank regulated by the Financial Regulator. On completion of the acquisition of the businesses MLCMB changed its name to Merrill Lynch International Bank Limited ("MLIB").

The directors have pleasure in submitting their report along with the audited financial statements of MLIB (the "Company" and together with its subsidiaries, the "Group") for the year ended 29 December 2006.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Group is to carry on general banking business. The Group has its head office in Ireland, operates through an international branch network and has subsidiaries in the UK, Switzerland and Italy. The Group trades derivatives and other financial instruments, as well as providing domestic and international banking services, including global foreign exchange services.

The Group provides private banking services for high net worth clients. These services involve the acceptance of deposits, the provision of standardised and tailored multi-currency financing and standby letters of credit. The Group also provides loan facilities on a selective basis to corporate clients and accepts deposits from corporate clients and other banks. The Group also provides investment banking and advisory services to corporate clients.

The Group provides Swiss Banking services through its subsidiary, Merrill Lynch Bank (Suisse) SA. These include securities trading and custody, portfolio management, foreign exchange, fiduciary deposits and lending services.

The Group also offers mortgages to retail customers. This activity was extended on 25 July 2006, with the acquisition of FFL Mortgage Holdings Limited and its subsidiaries ("Freedom"), a company incorporated in the United Kingdom. Freedom is a mortgage lender, administrator, arranger and servicer in the United Kingdom's non-conforming residential mortgage market.

The Group has recently entered into a joint venture agreement with Irish Life and Permanent plc. The joint venture, Springboard Mortgages Limited, offers mortgage services to the Irish non-conforming residential mortgage market.

The Group is regulated by the Financial Regulator.

FUTURE DEVELOPMENTS

The Group continues to develop its business, and plans further expansion of its international branch network in 2007.

The directors consider the Group to be in a strong financial position and confirm that the Group has adequate resources to continue in business for the foreseeable future.

PRINCIPAL RISKS AND UNCERTAINTIES

The major risks associated with the Group’s businesses are market risk, liquidity risk and credit risk. The Group has established a comprehensive framework for managing these risks, which is continually evolving as the Group’s business activities change in response to market, credit, product and other developments. The Group’s policies for managing each of these risks and its exposure thereto are detailed in Notes 25 to 27 to the financial statements.

DIRECTORS AND SECRETARY

The directors who served during the year were as follows:

Robert Wigley - Chairman	
Michael G Ryan - Managing Director	
Nasser Azam	
Allen G Braithwaite III	
Andrew Briski	
Gavin Caldwell	
Eva Castillo	Appointed 15 November 2006
Kevin Cox	Appointed 18 May 2006
Michael J D’Souza	
David Gu	Appointed 15 November 2006
Chris Hayward	
Eng Huat Kong	Appointed 14 September 2006
Robert G Murphy	
Paddy Teahon	

Merrill Lynch Corporate Services Limited continues to be company secretary having been appointed on the 12 May 2005.

CORPORATE GOVERNANCE

The Board of Directors ("the Board") is responsible for approving the corporate strategy for the Group, monitoring and reviewing performance, and providing oversight of major initiatives for the Group. The Board meets at least quarterly, to review the Group's business. In the course of conducting its business operations, the Group is exposed to a variety of risks including market, credit, liquidity, operational and other risks that are material and require comprehensive controls and ongoing oversight. To ensure that risks are properly identified, measured, monitored, and managed, the Group has established a governance and risk management process to ensure that MLIB's risk-taking is consistent with its business strategy, capital structure, and current and anticipated market conditions. The Board formally reviews its corporate governance on an annual basis to ensure that it meets industry best practice.

The Board has delegated day-to-day control and management of the Group's activities to management and various Board-approved Management Committees. The Managing Director and other members of the management team report quarterly to the various Committees. The charters and composition of the various Committees are reviewed annually and approved by the Board.

These committees perform an important oversight function for the Group.

The Risk Policy and Oversight Committee (the "Risk Committee") is chaired by Mr. Murphy and its membership includes five additional directors. The Risk Committee is responsible for reviewing the Group's risk-taking activities and ensuring that such activities are prudently managed and within acceptable risk tolerance levels. The Credit Committee, the Asset and Liability Committee, the New Product Committee and the Operational Risk Committee report to the Risk Committee on a quarterly basis. These committees are responsible for ensuring that the Group's market, credit, liquidity, and operational risks (among others) are properly identified, monitored and controlled.

The Audit Committee is chaired by Mr. Murphy and comprises four non-executive directors. The Audit Committee monitors and reports to the Board on all audit and compliance matters affecting the Group. The Compliance Committee reports to the Audit Committee on all matters of a compliance, legal or regulatory nature affecting the Group.

RESULTS AND DIVIDENDS

The Group's profit after taxation for the year amounted to US$568,583,000 (2005 as restated: US$660,189,000) as set out in the profit and loss account. The reduction in profit tax was due primarily to restructuring of business lines during the year.

The Group reported a net tax credit in its overseas activities due to the release of provisions made in earlier years that are no longer required and tax losses received from affiliates for no payment. The Group reported a tax charge for its activities in Ireland. The Group expanded its trading activity and risk profile with average Value-at-Risk increasing from $10.2 million to $39.9 million using a 99% confidence level and a two week holding period.

The Group's total assets reduced to $150.3 billion in the year under review, down from $177.9 billion on a like for like basis. All major categories increased with the exception of trading assets and liabilities; this latter category includes derivative financial instruments which are reported separately as assets and liabilities with counterparties regardless of whether a legal right of set off exists under a master netting agreement as per FRS 25.

The directors have recommended that no dividends be declared (2005: $5,574,000).

BOOKS OF ACCOUNT

To comply with the requirement that proper books and accounting records are kept in accordance with Section 202 of the Companies Act, 1990 the directors have ensured that appropriately qualified accounting personnel have been employed and that appropriate computerised accounting systems are maintained. The books of account are located at the Company's registered office.

AUDITORS

The auditors, Deloitte & Touche, Chartered Accountants, continue in office in accordance with Section 160(2) of the Companies Act 1963.

Signed on behalf of the Board:

} DIRECTORS

8 March 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Irish Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies for the Company and the Group and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with Irish statute comprising the Companies Acts, 1963 to 2006 and the European Communities (Credit Institutions: Accounts) Regulations, 1992. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MERRILL LYNCH INTERNATIONAL BANK LIMITED

We have audited the financial statements of Merrill Lynch International Bank Limited for the year ended 29 December 2006 which comprise the Statement of Accounting Policies, the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated Balance Sheet, the Company Balance Sheet and the related Notes 1 to 30. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the Company's members, as a body, in accordance with Section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the financial statements, as set out in the Statement of Directors' Responsibilities, in accordance with applicable law and accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

Our responsibility, as independent auditors, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2006, and the European Communities (Credit Institutions: Accounts) Regulations, 1992. We also report to you whether in our opinion: proper books of account have been kept by the Company; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether the information given in the Report of the Directors is consistent with the financial statements. In addition, we state whether we have obtained all information and explanations necessary for the purposes of our audit and whether the Company's balance sheet and profit and loss account are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatement within it. Our responsibilities do not extend to other information.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MERRILL LYNCH INTERNATIONAL BANK LIMITED

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the affairs of the Company and the Group as at 29 December 2006 and of the profit of the Group for the year then ended;
- have been properly prepared in accordance with the Companies Acts, 1963 to 2006 and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by the Company. The Company's balance sheet and its profit and loss account are in agreement with the books of account.

In our opinion the information given in the Report of the Directors is consistent with the financial statements.

The net assets of the Company, as stated in the company balance sheet are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 29 December 2006 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Company.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Dublin
8 March 2007

The significant accounting policies adopted by the Company and the Group are set out below.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2006 and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

ACCOUNTING CONVENTION

The financial statements are prepared under the historical cost convention, as modified by the revaluation of trading instruments, and are denominated in US Dollars (US$).

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the parent company and entities controlled by the Group. All intra-group balances, transactions, income and expenses are eliminated on consolidation. The financial statements have been prepared in accordance with uniform accounting policies.

The acquisition of the businesses of Old MLIB has been accounted for as a group reconstruction by using the merger method of accounting in accordance with Financial Reporting Standard ("FRS") 6, "Merger Accounting". For the consolidated accounts the adoption of merger accounting presents the businesses of Old MLIB as if they had always been owned by the Group. Certain reclassifications and format changes have been made to prior year amounts to conform to the current year presentation.

Apart from the above, acquisitions are accounted for under the acquisition method. Goodwill arising on consolidation of subsidiary undertakings, being the excess of the cost of the investment over the fair value of the Group's share of separable net assets at the date of acquisition, is capitalised and amortised on a straight line basis over a 20 year period reflecting its estimated useful life.

TRADING INSTRUMENTS

Long and short inventory positions, including debt securities and other fixed income securities, held for trading purposes are recorded on a trade date basis and are valued at market price at the close of business on the balance sheet date. The net changes in fair values are reflected in the profit and loss account for the current year.

Trading instruments can be classified into cash instruments and derivative financial instruments. Cash instruments include loans, debt and equity securities, and instruments held for resale or to hedge inventory positions. A derivative financial instrument is typically defined as an instrument whose value is derived from an underlying instrument or index, such as a future, forward, swap or option contract, or other financial instrument with similar characteristics.

Fair values for cash instruments and certain exchange-traded derivative financial instruments, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter ("OTC") derivative financial instruments, principally forwards, options and swaps represent amounts that would be received from or paid to a third party in settlement of the instruments. These amounts are determined using pricing models based on the present value of future cash flows using mid-market valuations with appropriate adjustments. These adjustments are integral components of the mark-to-market process and relate to credit quality, market liquidity and exposure close-out costs associated with unmatched positions.

INCOME AND EXPENSE RECOGNITION

Dealing profits include net realised and unrealised gains and losses from marking to market all trading instruments on a daily basis.

Other income and expenses are recognised on an accruals basis.

NETTING

Derivative financial instruments are reported separately as assets and liabilities regardless of whether a legal right of set-off exists under a master netting agreement enforceable in law.

GOODWILL

Goodwill arising on consolidation of subsidiary undertakings is defined as the excess of the cost of investment over the fair value of the Group's share of separable net assets at the date of acquisition. Recognised goodwill is capitalised and amortised on a straight line basis over a 20 year period reflecting its estimated useful life.

LOANS AND ADVANCES

Loans and advances are stated at the principal amount outstanding net of specific provisions. Specific provisions are made for advances whose recoveries are recognised as doubtful as a result of continuous appraisal of the loans and advances portfolio. Provisions for loan losses made during the year are charged as a separate amount in the profit and loss account and are deducted from loans and advances. Loans are written off when the extent of any loss has been confirmed.

In the prior year, the Group held general loan loss provisions against risks that, while not specifically identified, may be present in the loans and advances portfolio. Due to the low level of loss experience in the loan book and recognising emerging best accounting practice, the Group has decided to change its accounting policy. With effect from the accounting period commencing on 31 December 2005, the Group only makes provisions against its loans and advances portfolio when a permanent impairment has been identified. The release of provisions, made in prior periods, has been adjusted against opening reserves in accordance with FRS 3 "Reporting Financial Performance".

SECURITISED ASSETS

Securitised assets are included in the Group balance sheet at their gross amount less non-recourse financing received on securitisation, where the Group has retained significant rights to benefits and exposure to risks. The net amount reported is the Group's potential maximum loss.

FOREIGN CURRENCIES

Revenues and expenses arising from transactions to be settled in foreign currencies are translated into US Dollars at average monthly market rates of exchange. Monetary assets and liabilities are translated into US Dollars at the market rates of exchange ruling at the balance sheet date. Exchange differences arising from the translation of foreign currencies are reflected in the profit and loss account.

The financial statements of branches and subsidiaries whose functional currency is not the US Dollar are translated into US Dollars at the closing rate for the balance sheet and at the average rate of exchange for the year for the profit and loss account. Translation differences arising on the profit and loss generated for the current year and on opening net assets are taken directly as a movement in reserves.

TAXATION

Provision is made for taxation at current enacted rates on the taxable profits taking into account overseas taxation where appropriate. Timing differences arise where gains and losses are accounted for in different periods for financial reporting purposes and for taxation purposes.

Deferred taxation is accounted for in full for all such timing differences. Deferred tax assets are only recognised to the extent that it is regarded that it is more likely than not that they will be recovered. Deferred tax amounts are not discounted.

PENSIONS

The Group participates in a number of defined benefit and defined contribution pension schemes.

The major defined benefit scheme is the Merrill Lynch (UK) Pension Plan, (the "Plan", formerly the Merrill Lynch (UK) Final Salary Plan), which was closed to new entrants with effect from 30 June 1997 and to contributions from existing members with effect from 30 June 2004. The funding cost relating to the Plan is assessed in accordance with the advice of independent qualified actuaries using the projected unit method. The Group is one of a number of Merrill Lynch employers based in the United Kingdom which participate in the Plan. The Group has been unable to identify its share of the underlying assets and liabilities of the Plan and accordingly accounts for the Plan as if it were a defined contribution scheme.

The Group operates a defined benefit scheme in Germany; all other schemes are defined contribution. The major defined contribution scheme is the Merrill Lynch (UK) Defined Contribution Scheme. The costs of defined contribution schemes are calculated as a percentage of each employee's annual salary based on their age and length of service with the Group and are charged to the profit and loss account in the year in which they fall due.

TANGIBLE FIXED ASSETS AND DEPRECIATION

All tangible fixed assets are stated at historical cost, net of accumulated depreciation.

Depreciation is provided in equal annual instalments over the estimated useful lives of the assets as follows:

Leasehold improvements	4 to 9 years
Communication equipment	3 to 5 years
Furniture and fittings	4 to 8 years
Motor Vehicles	4 years
Computer equipment	3 years

CASH FLOW STATEMENT

The Group is exempt from the requirement to prepare a cash flow statement under FRS 1, “Cash Flow Statements”, as a consolidated cash flow statement is included in the publicly available consolidated financial statements of the ultimate parent company, Merrill Lynch & Co., Inc.

INVESTMENT IN SUBSIDIARIES

Investments in subsidiaries are stated at cost less provisions for impairment.

MERRILL LYNCH INTERNATIONAL BANK LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 29 DECEMBER 2006

	Notes	**2006**	**2005 as restated**
		US$'000	US$'000
Interest receivable:			
- Other interest receivable and similar income		1,599,165	979,135
- Interest payable and similar charges		(1,208,390)	(713,860)
Fees and commissions:			
- Receivable		498,660	369,345
- Payable		(519,907)	(280,662)
Dealing profits		739,208	750,025
Other operating income		222,559	196,654
TOTAL OPERATING INCOME		**1,331,295**	**1,300,637**
Administrative expenses	1	745,964	537,162
Depreciation		11,947	9,904
Other operating charges		20,976	3,328
Provisions for bad and doubtful debts		3,039	12,647
TOTAL OPERATING EXPENSES		**781,926**	**563,041**
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	**549,369**	**737,596**
Tax on profit on ordinary activities	4	19,214	(77,407)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		**568,583**	**660,189**

All gains and losses arise from continuing activities. Notes 1 to 30 form an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 8 March 2007 and signed on its behalf by:

} DIRECTORS

	Notes	2006	2005 as restated
		US$'000	US$'000
CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES			
Profit attributable to ordinary shareholders	21	568,583	660,189
Exchange differences on translation of foreign operations	21	28,654	(79,359)
Total recognised gains relating to the year		597,237	580,830
Prior period adjustment	6	54,127	
		651,364	

MERRILL LYNCH INTERNATIONAL BANK LIMITED
CONSOLIDATED BALANCE SHEET AS AT 29 DECEMBER 2006

	Notes	2006	2005 as restated
		US$'000	US$'000
ASSETS			
Cash and balances at Central Bank		328,328	790,478
Loans and advances to banks	7	7,817,545	2,583,512
Loans and advances to customers	8	22,747,145	19,769,651
Market and client receivables	10	4,377,884	2,433,605
Debt securities and other fixed income securities	11	5,204,960	3,372,725
Trading assets	26	106,841,219	146,453,174
Deferred taxation	12	25,908	14,099
Goodwill	13	142,314	96,524
Tangible fixed assets		12,498	10,484
Other assets	14	2,818,992	2,350,354
TOTAL ASSETS		**150,316,793**	**177,874,606**
LIABILITIES			
Deposits by banks	15	55,050	1,493,297
Customer accounts	16	21,807,151	15,465,774
Non-recourse financing	9	2,002,073	2,759,918
Market and client payables	17	5,104,620	2,934,400
Trading liabilities	26	109,978,016	144,083,872
Other liabilities	18	3,647,207	4,162,711
Accruals and deferred income		457,325	386,144
Subordinated debt	19	-	2,050,000
TOTAL LIABILITIES		143,051,442	173,336,116
SHAREHOLDERS' FUNDS			
Called up share capital	20	31,985	22,329
Share premium account	21	3,872,970	1,964,732
Capital contribution	21	190,875	190,875
Profit and loss account	21	3,169,521	2,360,554
		7,265,351	4,538,490
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**150,316,793**	**177,874,606**
MEMORANDUM ITEMS			
Guarantees, undrawn commitments and assets pledged as collateral security		33,335,363	23,120,735

The financial statements were approved by the Board of Directors on 8 March 2007 and signed on its behalf by:

} DIRECTORS

MERRILL LYNCH INTERNATIONAL BANK LIMITED
COMPANY BALANCE SHEET AS AT 29 DECEMBER 2006

	Notes	2006	2005 as restated
		US$'000	US$'000
ASSETS			
Cash and balances at Central Bank		328,328	8,578
Loans and advances to banks	7	7,142,360	786,279
Loans and advances to customers	8	19,471,461	2,205,555
Securitised assets		1,949,491	462,060
Less: non-recourse financing		(2,002,073)	(460,867)
	9	(52,582)	1,193
Market and client receivables	10	4,162,996	2,433,605
Debt securities and other fixed income securities	11	5,204,960	665,150
Trading assets	26	106,803,971	135,237,620
Deferred taxation	12	23,440	3,428
Investment in subsidiaries	29	194,321	-
Tangible fixed assets		7,180	3,018
Other assets	14	3,533,099	1,910,686
TOTAL ASSETS		**146,819,534**	**143,255,112**
LIABILITIES			
Deposits by banks	15	55,050	91,549
Customer accounts	16	21,308,873	-
Market and client payables	17	4,735,803	2,934,400
Trading liabilities	26	110,030,342	133,747,679
Other liabilities	18	3,555,287	3,239,542
Accruals and deferred income		353,573	101,388
Subordinated debt	19	-	580,000
TOTAL LIABILITIES		140,038,928	140,694,558
SHAREHOLDERS' FUNDS			
Called up share capital	20	31,985	9,125
Share premium account	21	3,872,970	-
Capital contribution	21	190,875	190,875
Profit and loss account	21	2,684,776	2,360,554
		6,780,606	2,560,554
TOTAL LIABILITIES AND SHAREHOLDERS' FUND		**146,819,534**	**143,255,112**
MEMORANDUM ITEMS			
Guarantees, undrawn commitments and assets pledged as collateral security		33,257,793	5,165,972

The financial statements were approved by the Board of Directors on 8 March 2007 and signed on its behalf by:

} DIRECTORS

1. ADMINISTRATIVE EXPENSES

	2006	2005 as restated
	US$'000	US$'000
- Group		
Wages and salaries	528,642	307,122
Social welfare	19,434	10,626
Pension costs (Note 22)	18,786	33,919
Other administrative expenses	179,102	185,495
	745,964	537,162

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2006	2005 as restated
	US$'000	US$'000
- Group		
Profit on ordinary activities before taxation is stated after crediting / (charging):		
Service fee income	369,922	293,576
Service fee expense	(425,434)	(266,548)
Amortisation of goodwill (Note 13)	(6,631)	(5,302)
Depreciation of tangible fixed assets	(5,316)	(4,602)
Directors' remuneration:		
Fees paid by the Group	(231)	(164)
Other emoluments	(8,369)	(6,457)
(Included in 2006: US$82,280 (2005: US$75,917) in respect of pension contributions)		
Operating lease rentals	(14,031)	(11,137)
Auditors' remuneration	(2,327)	(2,227)

3. GROUP RECONSTRUCTION DISCLOSURES

On 30 September 2006, the businesses of Old MLIB, a United Kingdom based bank, transferred to MLCMB which, on completion of the acquisition of the businesses, changed its name to MLIB. The following tables set out an analysis of the component parts of the group reconstruction:

ANALYSIS OF PRINCIPAL COMPONENTS OF 2006 PROFIT AND LOSS ACCOUNT

	First 9 months MLCMB	First 9 months Old MLIB	Last 3 months MLIB	Total
	US$'000	US$'000	US$'000	US$'000
Net interest income	75,546	196,475	118,754	390,775
Other income	163,789	368,351	408,380	940,520
Total operating expenses	(124,671)	(310,496)	(346,758)	(781,926)
Profit on ordinary activities before taxation	114,663	254,330	180,376	549,369
Profit on ordinary activities after taxation	147,648	181,589	239,346	568,583

ANALYSIS OF PRINCIPAL COMPONENTS OF 2005 PROFIT AND LOSS ACCOUNT

	MLCMB	Old MLIB	Total
	US$'000	US$'000	US$'000
Net interest income	56,237	209,038	265,275
Other income	637,748	397,614	1,035,362
Total operating expenses	(116,280)	(446,761)	(563,041)
Profit on ordinary activities before taxation	577,705	159,891	737,596
Profit on ordinary activities after taxation	507,753	152,436	660,189

The consideration given by MLCMB consisted of share capital of US$19,866,000 and share premium of US$2,955,964,000.

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2006 US$'000	2005 as restated US$'000
- Group		
Taxation on profit on ordinary activities:		
Corporation tax charge	68,018	83,518
Deferred tax credit	(20,664)	(8,275)
	47,354	75,243
Adjustments in respect of prior years	(66,568)	2,164
	(19,214)	77,407
Split as follows:		
Ireland	35,596	55,036
Overseas	(54,810)	22,371
	(19,214)	77,407

The effective tax rate for 2006 is (3.50%) (2005: 10.49%).

Factors affecting tax charge for the period:

The current tax charge for the year is lower than the current charge that would result from applying the standard rate of Irish Corporation tax (2006: 12.5%; 2005: 10%) to the profit on ordinary activities. The difference is explained below:

	2006 US$'000	2005 as restated US$'000
- Group		
Profit on ordinary activities before tax	549,369	737,596
Tax charge at the standard rate of corporation tax	68,671	73,760
Effects of:		
Foreign taxes	101,392	41,101
Tax losses received by affiliates for no payment	(99,190)	(33,673)
Other	(2,855)	2,330
Corporation tax charge	68,018	83,518

The Company reported a tax charge for its activities in Ireland of $35.6 million in the year under review.

The Group accounts reported a net tax credit for the year under review of $19.2 million. This arose from a combination of (1) the release of provisions made in earlier years that are no longer required and (2) tax losses received from affiliates for no payment. These items relate to the overseas operations of the Group.

5. PROFIT DEALT WITH IN THE FINANCIAL STATEMENTS OF THE COMPANY

Of the consolidated profit after tax for the financial year, US$354,220,000 (2005: US$510,211,000) is attributable to the operations of the Company. The profit and loss account of the Company is not presented by virtue of the exemption contained within Section 3(2) of the Companies (Amendment) Act 1986.

6. PRIOR YEAR ADJUSTMENT

In the prior year, the Group held general loan loss provisions against risks that while not specifically identified, may be present in the loans and advances portfolio. Due to the low level of loss experience in the loan book and the recognition of emerging best accounting practice, the Group has decided to change its accounting policy. With effect from the accounting period commencing on 31 December 2005, the Group only makes provisions against its loans and advances portfolio when a permanent impairment has been identified.

The impact of the prior year adjustment resulted in an increase in the prior year profit before taxation of $47,641,000, and a cumulative increase in reserves of $54,127,000.

7. LOANS AND ADVANCES TO BANKS

	2006 US$'000	2005 US$'000
- Group		
Analysed by remaining maturity:		
Repayable on demand	1,552,847	-
3 months or less but not on demand	6,094,247	2,521,128
1 year or less but over 3 months	170,451	62,384
	7,817,545	2,583,512
- Company		
Analysed by remaining maturity:		
Repayable on demand	1,177,396	-
3 months or less but not on demand	5,796,432	786,279
1 year or less but over 3 months	168,532	-
	7,142,360	786,279

8. LOANS AND ADVANCES TO CUSTOMERS

	2006 US$'000	2005 as restated US$'000
- Group		
Analysed by remaining maturity:		
Repayable on demand	-	914,685
3 months or less but not on demand	7,088,703	9,450,955
1 year or less but over 3 months	4,094,607	2,069,116
5 years or less but over 1 year	7,749,945	1,986,832
5 years and over	3,813,890	5,348,063
	22,747,145	19,769,651

8 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

- Company	2006	2005 as restated
	US$'000	US$'000
Analysed by remaining maturity:		
3 months or less but not on demand	5,796,772	15,044
1 year or less but over 3 months	3,898,124	22,190
5 years or less but over 1 year	7,729,694	1,426,388
5 years and over	2,046,871	741,933
	19,471,461	2,205,555

There were loan loss provisions of US$29,888,000 as at 29 December 2006 (2005: US$87,782,000), against assets in the Group's portfolio. Loan loss provisions in the Company's portfolio amounted to US$14,378,000 as at 29 December 2006 (2005; US$ 73,039,000).

9. SECURITISED ASSETS

Loans and advances to customers include mortgage loans which are subject to non-recourse finance arrangements. These loans have been sold to special purpose securitisation companies, Mortgages No. 6 Plc, Mortgages No. 7 Plc and Taurus CMBS No.2 Srl which are ultimately beneficially owned by charitable trusts, and have been funded primarily through the issuance of floating rate notes. No gain or loss has been recognised as a result of these sales. The special purpose securitisation companies are consolidated as legal subsidiaries under FRS 2, "Accounting for Subsidiary Undertakings" and the Companies Acts 1963 to 2006.

Holders of the floating rate notes are only entitled to obtain payment of principal and interest to the extent that the resources of the securitisation companies are sufficient to support such payments, and the holders of the floating rate notes have no recourse in any other form. The priority and amount of claims on the proceeds generated by the assets are determined in accordance with a strict priority of payments.

The Group is entitled to receive payment of deferred consideration for the sale of the mortgage loans. As part of the deferred consideration, the Group is entitled to receive any residual amounts less a predetermined amount of the outstanding principal on the floating rate notes on each interest determination date. The Group is also entitled to receive mortgage redemption penalty interest on the securitised loans.

The Group has no obligation or intention to repurchase the benefit of any securitised loans except if certain representations and warranties given by the Group at the time of transfer are breached. The Group also has no obligation or intention to financially support any of the securitisation companies and does not intend to do so.

The special purpose securitisation companies are as follows:

- Company

Securitisation Company	Date of Securitisation	Gross Assets Securitised	Non-recourse finance
Mortgages No 6 Plc	Dec 2004	599,907	620,520
Mortgages No 7 Plc	Aug 2005	1,166,686	1,199,848
Taurus CMBS No 2 Srl	Dec 2005	182,898	181,705
		1,949,491	2,002,073

10. MARKET AND CLIENT RECEIVABLES

	2006 US$'000	2005 US$'000
- Group		
Analysed by remaining maturity:		
3 months or less but not on demand	4,377,884	2,433,605
	4,377,884	2,433,605
- Company		
Analysed by remaining maturity:		
3 months or less but not on demand	4,162,996	2,433,605
	4,162,996	2,433,605

11. DEBT SECURITIES AND OTHER FIXED INCOME SECURITIES

	2006 US$'000	2005 US$'000
- Group		
Listed securities:		
Government securities	1,960,756	671,257
Unlisted securities:		
Corporate bonds	603,097	14,928
Bank and Building Society Certificates of Deposit	2,641,107	2,686,540
	5,204,960	3,372,725
Securities analysed by remaining maturity:		
Due within one year	3,850,273	2,691,767
Due one year and over	1,354,687	680,958
	5,204,960	3,372,725
- Company		
Listed securities:		
Government securities	1,960,756	665,150
Unlisted securities:		
Corporate bonds	603,097	-
Bank and Building Society Certificates of Deposit	2,641,107	-
	5,204,960	665,150
Securities analysed by remaining maturity:		
Due within one year	3,850,273	-
Due one year and over	1,354,687	665,150
	5,204,960	665,150

12. DEFERRED TAXATION

	2006	2005 as restated
	US$'000	US$'000
- Group		
Accelerated capital allowances	376	1,813
Timing differences relating to compensation and social security costs	15,359	8,226
Timing differences in relation to interest	-	7,913
Other timing differences	10,173	(3,853)
	25,908	14,099
- Company		
Accelerated capital allowances	376	-
Timing differences relating to compensation and social security costs	15,359	-
Other timing differences	7,705	3,428
	23,440	3,428

Movement on deferred taxation:

	2006	2005 as restated
	US$'000	US$'000
- Group		
Balance at start of year	14,099	4,319
Deferred tax charge in profit and loss account relating to current year	20,664	8,275
Adjustment in respect of previous years	(8,855)	1,505
Balance at end of year	25,908	14,099

Movement on deferred taxation:

- Company		
Balance at start of year	3,428	5,254
Deferred tax charge in profit and loss account relating to current year	21,400	6,144
Adjustment in respect of previous years	(1,388)	(7,970)
Balance at end of year	23,440	3,428

Management is of the opinion that it is more likely than not that the Company and the Group will be able to generate future taxable income to recover the deferred tax asset recognised at the balance sheet date, having considered historic performance.

13. GOODWILL

- Group	2006 US$'000	2005 US$'000
Cost		
At start of year	109,097	121,558
Additions (Note 23)	43,187	-
Exchange translation	9,827	(12,461)
At end of year	162,111	109,097
Amortisation		
At start of year	12,573	7,552
Charge for year	6,631	5,302
Exchange translation	593	(281)
At end of year	19,797	12,573
Net Book Value		
At start of year	96,524	114,006
At end of year	142,314	96,524

14. OTHER ASSETS

	2006 US$'000	2005 US$'000
- Group		
Amounts due from affiliate companies	1,919,684	1,552,265
Prepaid taxation	85,287	767
Prepayments and accrued income	814,021	797,322
	2,818,992	2,350,354
- Company		
Amounts due from affiliate companies	2,717,178	1,605,109
Prepaid taxation	23,416	767
Prepayments and accrued income	792,505	304,810
	3,533,099	1,910,686

15. DEPOSITS BY BANKS

	2006 US$'000	2005 US$'000
- Group		
Analysed by remaining maturity:		
Repayable on demand	-	386,412
3 months or less but not on demand	55,050	696,111
1 year or less but over 3 months	-	410,774
	55,050	1,493,297
- Company		
Analysed by remaining maturity:		
3 months or less but not on demand	55,050	91,549
	55,050	91,549

16. CUSTOMER ACCOUNTS

	2006 US$'000	2005 US$'000
- Group		
Analysed by remaining maturity:		
Repayable on demand	2,303,131	3,784,871
3 months or less but not on demand	18,513,115	11,287,313
1 year or less but over 3 months	963,747	358,025
5 years or less but over 1 year	10,242	33,565
5 years and over	16,916	2,000
	21,807,151	15,465,774
- Company		
Analysed by remaining maturity:		
Repayable on demand	2,303,131	-
3 months or less but not on demand	18,114,837	-
1 year or less but over 3 months	863,747	-
5 years or less but over 1 year	10,242	-
5 years and over	16,916	-
	21,308,873	-

17. MARKET AND CLIENT PAYABLES

	2006 US$'000	2005 US$'000
- Group		
Analysed by remaining maturity:		
3 months or less but not on demand	5,104,620	2,934,400
	5,104,620	2,934,400
- Company		
Analysed by remaining maturity:		
3 months or less but not on demand	4,735,803	2,934,400
	4,735,803	2,934,400

18. OTHER LIABILITIES

	2006 US$'000	2005 US$'000
- Group		
Amounts owed to affiliate companies	3,476,249	3,707,865
Provision for pensions	54,721	24,043
Corporation tax payable	82,240	124,316
Provision for deferred taxation	588	10,144
Other accruals	33,409	269,343
	3,647,207	4,162,711
- Company		
Amounts owed to affiliate companies	3,437,914	3,067,922
Provision for pensions	54,721	24,043
Corporation tax payable	61,770	113,453
Provision for deferred taxation	588	10,144
Other accruals	294	23,980
	3,555,287	3,239,542

Amounts owed to affiliate companies at 29 December 2006 includes an amount of US$20,074,410 (2005: US$20,061,029) due to the Group's holding company, Merrill Lynch Group Holdings Limited. Deferred taxation relates to short term timing differences.

19. SUBORDINATED DEBT

	2006 US$'000	2005 US$'000
- Group		
US$ 200m Subordinated Debt repayable 30 September 2012, Libor + 100bps	-	160,000
US$ 500m Revolving Subordinated Debt Facility repayable 7 October 2006, Libor + 100bps	-	420,000
US$ 600m Subordinated Debt repayable 2 November 2010, Libor + 100 bps	-	560,000
US$ 150m Subordinated Debt repayable 28 February 2011, Libor + 100 bps	-	150,000
US$ 650m Revolving Subordinated Debt repayable as agreed in writing with a minimum of 2 years and one day as maturity, Libor + 100 bps	-	610,000
US$ 150m Revolving Subordinated Debt repayable as agreed in writing with a minimum of 2 years and one day as maturity, Libor + 100bps	-	150,000
	-	2,050,000

	2006 US$'000	2005 US$'000
- Company		
US$ 200m Subordinated Debt repayable 30 September 2012, Libor + 100bps	-	160,000
US$ 500m Revolving Subordinated Debt Facility repayable 7 October 2006, Libor + 100bps	-	420,000
	-	580,000

During 2006, all subordinated debt listed above was retired. The Group put two new facilities in place with Merrill Lynch & Co., Inc. as follows: $2,100,000,000 maturing on 1 February 2013 at Libor + 100bps and $1,500,000,000 maturing on 1 February 2010 at Libor + 100bps. Both facilities were undrawn as at 29 December 2006.

20. CAPITAL

- Group

Authorised	2006 No.	2006 US$	2005 No.	2005 US$
Ordinary Shares US$1	10,000,000	10,000,000	10,000,000	10,000,000
A Ordinary Shares US$1	15,000,000	15,000,000	15,000,000	15,000,000
B Ordinary Shares US$1	30,000	30,000	30,000	30,000
IR Ordinary Shares US$1	1,000	1,000	1,000	1,000
IT Ordinary Shares US$1	10,000	10,000	10,000	10,000
NL Ordinary Shares US$1	5,000	5,000	5,000	5,000
S Ordinary Shares US$20	500,000	10,000,000	500,000	10,000,000
SP Ordinary Shares US$1	5,000	5,000	5,000	5,000
	25,551,000	35,051,000	25,551,000	35,051,000

Called up, issued and fully paid	2006 No.	2006 US$	2005 No.	2005 US$
Ordinary Shares US$1	9,125,000	9,125,000	9,125,000	9,125,000
A Ordinary Shares US$1	14,320,617	14,320,617	4,664,682	4,664,682
B Ordinary Shares US$1	377	377	377	377
IR Ordinary Shares US$1	163	163	163	163
IT Ordinary Shares US$1	4,012	4,012	4,012	4,012
NL Ordinary Shares US$1	1,080	1,080	1,080	1,080
S Ordinary Shares US$20	426,642	8,532,840	426,642	8,532,840
SP Ordinary Shares US$1	846	846	846	846
	23,878,737	31,984,935	14,222,802	22,329,000

- Company

Authorised	2006 No.	2006 US$	2005 No.	2005 US$
Ordinary Shares US$1	10,000,000	10,000,000	10,000,000	10,000,000
A Ordinary Shares US$1	15,000,000	15,000,000	-	-
B Ordinary Shares US$1	30,000	30,000	-	-
IR Ordinary Shares US$1	1,000	1,000	-	-
IT Ordinary Shares US$1	10,000	10,000	-	-
NL Ordinary Shares US$1	5,000	5,000	-	-
S Ordinary Shares US$20	500,000	10,000,000	-	-
SP Ordinary Shares US$1	5,000	5,000	-	-
	25,551,000	35,051,000	10,000,000	10,000,000

20. CAPITAL (CONTINUED)

- Company

Called up, issued and fully paid	2006 No.	2006 US$	2005 No.	2005 US$
Ordinary Shares US$1	9,125,000	9,125,000	9,125,000	9,125,000
A Ordinary Shares US$1	14,320,617	14,320,617	-	-
B Ordinary Shares US$1	377	377	-	-
IR Ordinary Shares US$1	163	163	-	-
IT Ordinary Shares US$1	4,012	4,012	-	-
NL Ordinary Shares US$1	1,080	1,080	-	-
S Ordinary Shares US$20	426,642	8,532,840	-	-
SP Ordinary Shares US$1	846	846	-	-
	23,878,737	31,984,935	9,125,000	9,125,000

On 29 September, the Company issued 2,993,777 Class A Ordinary shares at a par value of US$1, with a premium of US$917,006,233, in order to redeem its subordinated debt.

Also in 2006 the Company issued share capital in order to facilitate the purchase of the net assets of old MLIB. An analysis of the share capital issued, premium associated with these shares and the net assets acquired is shown below:

Share Class	Nominal	Par Value	Capital Issue US$	Premium US$	Net Assets US$
S	426,642	20	8,532,840	102,953,757	111,486,597
A	11,326,840	1	11,326,840	2,850,888,537	2,862,215,377
B	377	1	377	247,221	247,599
IR	163	1	163	171,308	171,471
IT	4,012	1	4,012	1,192,496	1,196,508
NL	1,080	1	1,080	377,304	378,384
SP	846	1	846	133,248	134,094
			19,866,158	2,955,963,872	2,975,830,030

All shares in issue as at 29 December 2006 rank pari passu in all respects save that upon the return of capital, such capital shall be applied in the following order of priority: Ordinary Shares followed by the B Ordinary Shares, IR Ordinary Shares, IT Ordinary Shares, NL Ordinary Shares, SP Ordinary Shares, A Ordinary Shares and finally the S Ordinary Shares. Any surplus after the repayment of such amounts shall be distributed between the holders of the shares in proportion to their holdings.

21. COMBINED STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENT IN RESERVES

- Group (all in US$'000)

	Share Capital	Share Premium	Capital Contribution	Profit and Loss Account	Total
As at 30 Dec 2005	9,125	-	190,875	2,306,427	2,506,427
Issue of new shares in respect of old MLIB asset transfer	13,204	1,964,732	-	-	1,977,936
Prior year adjustment	-	-	-	54,127	54,127
As restated	22,329	1,964,732	190,875	2,360,554	4,538,490
Adjustment in respect of old MLIB asset transfer	6,662	991,232	-	211,730	1,209,624
Issue of new shares	2,994	917,006	-	-	920,000
Profit for the year	-	-	-	568,583	568,583
Translation Adjustment	-	-	-	28,654	28,654
As at 29 Dec 2006	31,985	3,872,970	190,875	3,169,521	7,265,351

- Company (all in US$'000)

	Share Capital	Share Premium	Capital Contribution	Profit and Loss Account	Total
As at 30 Dec 2005	9,125	-	190,875	2,306,427	2,506,427
Prior year adjustment	-	-	-	54,127	54,127
As restated	9,125	-	190,875	2,360,554	2,560,554
Issue of new shares	22,860	3,872,970	-	-	3,895,830
Adjustment to reserves	-	-	-	(36,937)	(36,937)
Profit for the year	-	-	-	354,220	354,220
Translation Adjustment	-	-	-	6,939	6,939
As at 29 Dec 2006	31,985	3,872,970	190,875	2,684,776	6,780,606

22. PENSION COMMITMENTS

The Company operates pension plans both in Ireland and in its overseas branches and subsidiaries. The pension charges for the year are as follows:

- Group	2006 US$'000	2005 US$'000
Defined contribution scheme	13,005	18,631
Defined benefit scheme	5,781	15,288
	18,786	33,919

The Company is a member of a multi employer group scheme, the Merrill Lynch (UK) Pension Plan ("the Plan"), formerly the Merrill Lynch (UK) Final Salary Plan. Valuations of the Plan are carried out triennially with the last valuation being performed as at 1 January 2006. That assessment showed that the Plan had a deficit of £103.3 million which represented a funding level of 83%. This represents an increase in the funding level from 69% recorded at the previous valuation in 2003; improvements were due to additional contributions and good returns on investments. Contributions to the Plan are recorded in the Company's accounts as "defined contribution" in line with accounting rules on multi-employer schemes.

The assets of all other defined contribution schemes operated by the Group are held separately in independently administered funds. The charge in respect of these schemes is calculated on the basis of contributions due in the financial year.

A defined benefit scheme is operated in Germany and the main economic assumptions employed for determining the costs are as follows:

Date of latest valuation	1 October 2006
Salary growth	5.00%
Pension increases	2.00%
Discount rate	4.5%

The German scheme's liabilities as at 29 December 2006 were US$49.2 million (2005 on a merged basis US$48 million) and are provided in the accounts. In line with German business practices, the defined benefit pension scheme is not funded. The scheme's liabilities represent the net present value of future pension obligations to eligible past and current employees. These pension obligations are partially covered by an independent insurance provider.

23. SUMMARY OF THE EFFECT OF ACQUISITIONS

The following table summarises the effect of the acquisition of FFL Mortgage Holdings Limited on 25 July 2006:

	Book Value before Acquisition US $'000	Fair Value Adjustments US $'000	Fair Value at Acquisition US$'000
Cash and balances at Central Bank	16,323	-	16,323
Loans and advances to customers	220,414	(3,026)	217,388
Market and client receivables	3	-	3
Tangible fixed assets	159	-	159
Other Assets	287	-	287
Customer Accounts	(227,206)	-	(227,206)
Market and client payables	(2,169)	-	(2,169)
Subordinated debt	(5,528)	-	(5,528)
Net Assets Acquired	2,283	(3,026)	(743)
Total fair value of the consideration and cost of acquisition			42,444
Goodwill on acquisition of subsidiary undertaking (Note 13)			43,187

FFL Mortgage Holdings Limited's losses after tax for the period 1 May 2006 to 24 July 2006, and for the year ended 30 April 2005, calculated using FFL Mortgage Holdings Limited's accounting policies, were $355,953 and $256,939 respectively.

24. GROUP SEGMENTAL ANALYSIS

Geographical segmental reporting is disclosed on the basis of the location of the office at which the transaction is recorded:

	Ireland	Rest of Europe	Rest of World	Total
- Group				
Interest receivable	66,320	320,500	3,955	390,775
Fees and commission receivable/(payable)	(26,297)	(84,032)	89,082	(21,247)
Dealing profits	181,537	556,256	1,415	739,208
Other operating income	52,025	166,775	3,759	222,559
Profit before taxation	216,906	321,241	11,222	549,369
Shareholders' funds	6,430,995	724,073	110,283	7,265,351

	Ireland	Rest of Europe	Rest of World	Total
- Company				
Interest receivable	66,320	95,661	3,943	165,924
Fees and commission receivable/(payable)	(26,297)	16,306	57,929	47,938
Dealing profits	181,537	313,101	1,415	496,053
Other operating income	52,025	68,114	3,766	123,905
Profit before taxation	216,906	105,861	2,688	325,455
Shareholders' funds	6,317,700	352,623	110,283	6,780,606

25. FINANCIAL INSTRUMENTS EXPOSURE

Financial instruments are dealt with in both the trading book and non-trading book of the Company. Trading book activities are described in Note 26 and non-trading book activities are described in Note 27. Both trading book and non-trading book activities may expose the Company to various categories of risk. These risks are continually monitored through a comprehensive risk management process. The proper execution of this process leads to effective management of these risks, helping to reduce the likelihood of earnings volatility over time.

The Group approves and monitors risk tolerance levels (i.e. credit, market and operational risks) through the Risk Policy and Oversight Committee, chaired by a non-executive director. This Committee reviews reports from the Group’s existing Credit, Asset & Liability, New Product and Operational Risk Committees. These Committees identify and monitor risk limits based on recommendations and analysis provided by independent risk management groups who work with the business units in establishing suitable risk profiles for each of the business units.

The initial responsibility in the risk management process rests with the individual business units in managing the risks that arise on individual transactions or portfolios of similar transactions. Business units manage these risks by adhering to established risk policies and procedures.

In addition to risk management at the business unit level, the Group has developed corporate governance policies and procedures that require corporate personnel, who are independent of business units, to participate in the risk management process. The primary independent groups responsible for the maintenance of risk policies and procedures and for establishing, controlling and monitoring risk are Market Risk Management and Credit Risk Management. To ensure a proper system of checks and balances, these units are independent of business units and report to senior management in the Group.

Market Risk

Market risk is the potential change in an instrument's value caused by fluctuations in interest and currency exchange rates, equity prices, credit spreads or other risks. The level of market risk is influenced by the volatility and liquidity in the markets in which financial instruments are traded. The Group seeks to mitigate market risk by employing hedging strategies that correlate rate, price and spread movements of trading inventories and related financing and hedging activities using a combination of cash instruments and derivatives. The components of market risk include:

- **Interest Rate Risk**

  Interest rate risk is the potential for loss due to adverse changes in interest rates. Interest rate swap agreements, futures and securities are common interest rate risk management tools.

25. FINANCIAL INSTRUMENTS EXPOSURE (CONTINUED)

- **Currency Risk**

  Currency risk is the potential for loss due to fluctuations in foreign exchange rates. Trading assets and liabilities include both cash instruments in, and derivatives linked to, over 30 currencies including Japanese Yen, the Euro, Swiss Franc and British Pound. Currency forwards, swaps and options are commonly used to manage currency risk associated with these instruments.

- **Equity Risk**

  Equity risk is the potential for loss due to adverse changes in equity security prices. Instruments typically used by the Group to manage equity price risk include equity options, warrants and equity securities.

- **Credit Spread Risk**

  Credit spread risk is the potential for loss due to changes in credit spreads. Credit spreads represent the credit risk premiums required by market participants for a given credit quality. The Group's trading book activities and related hedging strategies do not expose the Group to significant credit spread risk.

Credit Risk

Credit risk is the potential loss that may be incurred if a counterparty fails to perform its obligations under contractual terms. The Group has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral and continually assessing the creditworthiness of counterparties. In respect of derivative transactions, the Group enters into Master Netting Agreements with counterparties which permit the netting of all transactional exposures on a multi-currency, multi-location basis and, in certain circumstances, across product types.

Liquidity Risk

Liquidity risk is the risk that an entity may encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments.

The Group has established liquidity procedures for measuring funding requirements and identifying liquidity mismatches. The Group's funds are sourced from its own business activities and from Merrill Lynch affiliate companies.

26. TRADING BOOK ACTIVITIES

The trading book comprises all assets and liabilities held or issued as part of the Group's trading in financial assets or financial liabilities. The assets or liabilities that are not held in the trading book are non-trading book assets and liabilities.

The trading book activities of the Group include:

- Providing financial instruments to clients through brokerage, facilitation and intermediation activities;
- Providing financing and underwriting services; and
- Taking proprietary positions in financial instruments.

Trading Book Risk

The Group maintains trading positions in a variety of financial instruments, including derivatives and cash instruments. The financial instruments include bonds, corporate debt, futures, forwards, options and swaps including swap options, caps, collars and floors. These positions result from business activity with sovereign, corporate and institutional clients.

For its trading book activity, the Group hedges its exposure to market risk with third parties and Merrill Lynch affiliate companies. The Group seeks to limit market risk exposure associated with potentially unfavourable changes in underlying interest rates, currency exchange rates and other market rates. The Group manages its market risk exposures on other derivative transactions by use of a combination of securities and derivative financial instruments including forwards, futures, swaps and options.

The Group is exposed to the credit risk associated with the above transactions, which is managed through the use of master swap agreements incorporating appropriate collateral provisions.

26. TRADING BOOK ACTIVITIES (CONTINUED)

Risk Models

The Group uses mathematical risk models, including Value-at-Risk and sensitivity analysis, to help estimate its exposure to market risk. The Group is satisfied that the various analytical tools utilised to manage market risk are an effective means of monitoring and thus controlling that risk. The information based on risk models is supplemented with the judgement and experience of the Group's risk management professionals.

Value-at-Risk is a statistical measure of the potential loss in the fair value of a portfolio due to adverse movements in underlying risk factors. For these disclosures, the Group uses a historical simulation approach to estimate value at risk using a 99% confidence level and a two-week holding period. The Value-at-Risk is calculated on a daily basis and sensitivities to market risk factors are aggregated and combined with a database of fortnightly changes in market factors to simulate a series of profits and losses. The level of loss that is exceeded in that series 1% of the time is used as the estimate for the 99% confidence level Value-at-Risk.

Assuming a 99% confidence level and a two-week holding period, the Value-at-Risk for the Group's trading book at 29 December 2006 was US$51.1 million (2005: US$12.5 million). The average, highest and lowest Value-at-Risk for the trading book during 2006 were US$39.9 million (2005: US$10.2 million), US$142.8 million (2005: US$17.9 million) and US$10.0 million (2005: US$5.0 million) respectively.

Trading Profit and Loss

The net trading book results include dealing profits of US$739 million (2005: US$750 million).

26. TRADING BOOK ACTIVITIES (CONTINUED)

Fair Value of Trading Book Assets and Liabilities

All trading book financial instruments are reported in the balance sheet and in the notes to the financial statements at fair value. Fair value disclosures in respect of trading book activities are set out below. Fair value disclosures in respect of non-trading book activities are reported in Note 27.

The Group maintains trading positions in a variety of financial instruments including derivatives and cash instruments. The financial instruments include bonds, corporate debt, futures, forwards, options and swaps, swap options, caps, collars and floors. These positions are a result of business activity with sovereign, corporate and institutional clients.

The Group enters into a large number of derivative contracts with third parties through its intermediation business. The market risk on these third party contracts is hedged with affiliated companies. The disclosures below do not include details of these affiliate hedge transactions. Derivative contracts from other businesses are included in the disclosure below whether contracted with affiliated companies or not.

	2006			2005		
	Notional Amount	Positive Fair values	Negative Fair values	Notional Amount	Positive Fair values	Negative Fair values
	US$ M	US$ M	US$ M	US$ M	US$ M	US$ M
Interest rate derivatives:						
Swaps and Swap Options	9,621,675	71,345	69,862	8,703,500	115,989	113,579
Options & Warrants	218,128	1,202	1,211	628,974	9,450	8,606
	9,839,803	72,547	71,073	9,332,474	125,439	122,185
Foreign exchange derivatives:						
Swaps and Swap Options	842,477	11,101	8,865	267,678	5,017	5,259
Forwards	1,491,609	14,807	14,869	983,061	8,380	8,027
Options & Warrants	1,118,427	10,466	12,260	515,352	4,254	3,927
	3,452,513	36,374	35,994	1,766,091	17,651	17,213
Equities						
Options & Warrants	425	566	566	195	5	760

27. NON TRADING BOOK ACTIVITIES

The non-trading book activities of the Group include lending and investment activity.

Interest rate sensitivity gap analysis - Group

Part of the Group's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The table below summarises these repricing mismatches on the Group's non-trading book as at 29 December 2006. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

	Not more than three months US$ M	Not more than six months US$ M	Not more than one year US$ M	Not more than five years US$ M	More than five years US$ M	Non-interest bearing US$ M	Total US$ M
Assets							
Cash and balances at central banks	328	-	-	-	-	-	328
Loans and advances to banks	7,648	170	-	-	-	-	7,818
Loans and advances to customers	6,963	1,642	2,452	7,750	3,692	248	22,747
Debt securities	2,641	-	-	-	-	-	2,641
Market and client receivables	4,378	-	-	-	-	-	4,378
Goodwill	-	-	-	-	-	142	142
Tangible fixed assets	-	-	-	-	-	12	12
Other assets	1,226	-	-	-	-	1,593	2,819
Total assets	23,184	1,812	2,452	7,750	3,692	1,995	40,885
Liabilities							
Deposits by banks	55	-	-	-	-	-	55
Customer Accounts	20,418	593	271	10	17	498	21,807
Market and client payables	5,105	-	-	-	-	-	5,105
Non-recourse finance	-	-	-	2,002	-	-	2,002
Other liabilities	2,589					1,058	3,647
Accruals and deferred income	-	-	-	-	-	457	457
Shareholders' funds	-	-	-	-	-	7,265	7,265
Total Liabilities	28,167	593	271	2,012	17	9,278	40,338
Off-balance sheet items	-	-	-	-	-	-	-
Interest rate sensitivity gap	(4,983)	1,219	2,181	5,738	3,675	(7,283)	547
Cumulative Gap	(4,983)	(3,764)	(1,583)	4,155	7,830	547	

The above amounts approximately represent the fair value of non-trading book financial instruments as at 29 December 2006.

27. NON TRADING BOOK ACTIVITIES (CONTINUED)

Currency risk disclosures

Since the Group prepares consolidated financial statements in US Dollars, the consolidated balance sheet is affected by the structural currency exposures arising on movements in exchange rates between the US Dollar and the operating currencies of the overseas entities. The Group's net assets in non-functional currency operations were:

	2006 US$'000	2005 US$'000
Swiss Franc	418,895	373,679
Sterling	204,666	142,884
Euro	156	(4,652)
Bahraini Dinar	1,140	7,112
	624,857	519,023

Transactional currency exposures are non-structural currency exposures, which arise on the monetary assets and liabilities of the Group that are not denominated in the base currency of the operating unit involved.

28. EMPLOYEE INFORMATION

	2006	2005
Group		
Average number of persons employed:		
Sales and trading	497	432
Sales and trading support	214	141
Other support services	1,108	1,069
	1,819	1,642

The above averages include Group staff in both Ireland and its overseas operations. There are additional Merrill Lynch companies resident in Ireland. The total number of staff employed in these companies in Ireland totalled 666 as at the end of December 2006 (December 2005: 560).

29. SUBSIDIARY COMPANIES

The principal subsidiaries (held indirectly unless marked *) in the Group are as follows:

Company	Principal Activity	Country of Incorporation	Proportion of Ordinary shares held	Value of Shareholding US$'000
Merrill Lynch Bank (Suisse) SA*	Private client banking	Switzerland	100%	21,561
Mortgages No. 6 Plc	Securitisation Vehicle	United Kingdom	0%	-
Mortgages No. 7 Plc	Securitisation Vehicle	United Kingdom	0%	-
Majestic Acquisitions	Mortgage Lending	United Kingdom	100%	124,671
Freedom Funding Limited	Mortgage Lending	United Kingdom	100%	48,089
Taurus No.2 CMBS Srl	Securitisation Vehicle	Italy	0%	-
Mortgages plc	Managing company	United Kingdom	100%	-
				194,321

Mortgages No. 6 Plc, Mortgages No. 7 Plc and Taurus No.2 CMBS Srl are not owned by the Group but their results are consolidated, as they meet the definition of legal subsidiaries under FRS 2, "Accounting for subsidiary undertakings" and the Companies Acts, 1963 to 2006.

30. PARENT COMPANY AND RELATED PARTY TRANSACTIONS

The immediate parent company is Merrill Lynch Group Holdings Limited, a company incorporated in Ireland. The financial statements of Merrill Lynch Group Holdings Limited are available at the Companies Registration Office, Parnell House, 14 Parnell Square, Dublin 1.

The ultimate parent company is Merrill Lynch & Co., Inc., a company incorporated in the State of Delaware, USA. Copies of the group financial statements of Merrill Lynch & Co., Inc. are available from the Investor Relations website at www.ir.ml.com or by contacting the Corporate Secretary by mail at 222 Broadway, 17th Floor, New York, NY 10038, USA or by email at corporate_secretary@ml.com.

The Group has availed itself of an exemption, contained in Financial Reporting Standard No. 8 on related party transactions, from detailing transactions and balances with group companies. There were no related party transactions other than those with affiliated companies covered by this exemption.

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